

april 2019

Update on trade relations between UAE/Iran and Qatar/Iran

Observatoire du monde arabo-musulman
et du Sahel

THIERRY COVILLE

EXECUTIVE SUMMARY

1 – IRAN'S TRADE WITH THE UAE AND QATAR: STATE OF PLAY	3
2 – TRADE BETWEEN IRAN AND THE UAE: EMIRATES' WISH TO LIMIT RELATIONS WITH IRAN.....	6
3 – TRADE BETWEEN IRAN AND QATAR: IRANIAN AMBITIONS NOW DISAPPOINTED.....	8
CONCLUSION	10

Update on trade relations between UAE/Iran and Qatar/Iran**

I – Iran's trade with the UAE and Qatar: state of play

The United Arab Emirates (UAE) is a central trading partner for Iran. According to the *Iran Trade Promotion Organization*¹ (ITPO), the UAE was Iran's third largest export market for non-oil trade in the first half of 2018 and also had the second largest market share in Iran (see Table I). In contrast, Qatar has so far been a less important trading partner for Iran, since it was only Iran's 19th largest export market for non-oil products in the first half of 2018. During the same period, Qatar had the 70th market share in Iran. At the same time, UAE's foreign trade is much less dependent on Iran than the other way around. In 2017, imports from Iran accounted for only 0.7% of total UAE imports, while its exports to Iran were close to 4.9% of² total exports (it can be estimated that exports to Iran would represent only about 6% of UAE's non-oil exports). For Qatar, foreign trade with Iran is also of little importance since its exports to Iran represented only 0.9% of its global exports and imports from Iran, 0.9% of its global imports in 2017³. The main products imported from Iran by the UAE are mineral fuels, cast iron, steel, and fruit. The main products exported by the UAE to Iran are cars, mechanical devices, electrical devices, pearls, and precious metals⁴. The main products imported from Iran by Qatar are mineral fuels, plaster, cement, and vegetables. The main products exported by Qatar to Iran are pharmaceutical products and cars⁵.

** Thierry Coville, Iran specialist, researcher at IRIS.

¹ Iran's non-oil exports to the UAE in 2017 represented 14.4% of all non-oil exports (Source: ITPO). Of course, if we include oil exports, which represent nearly 70% of Iran's exports, Iranian exports to the UAE represent a smaller share of Iran's export sales (nearly 6% in 2017).

² Source: International Trade Centre - United Nations. These statistics include oil exports.

³ Source: International Trade Centre - United Nations.

⁴ Source: International Trade Centre - United Nations.

⁵ Source: International Trade Centre - United Nations.

This significant weight of the UAE in Iranian foreign trade is mainly explained by the strategic positioning of the UAE, and in particular the Emirate of Dubai, as a commercial cluster in the Persian Gulf. Due to its geographical location, quality transport infrastructure (including the port of Jebel Ali in Dubai) and tax incentives (no direct taxation for all foreign companies outside the oil, banking and insurance sectors), the UAE has established itself as a key gateway for trade in the region. Moreover, in the case of Iran, we are dealing with an economy that is still relatively closed, particularly to foreign investment, and which is not part of the WTO. As a result, many foreign companies prefer to export to the UAE first to access the Iranian market. Subsequently, the goods are re-exported to Iran. Similarly, on the Iranian side, it is often easier to export first to the UAE. The goods are, then, re-exported to another destination. It can be noted that in addition to the official trade between the UAE and Iran, there are significant smuggling flows: illegal imports from Dubai have been estimated in Iran at nearly 40% of official imports⁶. These trade links between Iran and the UAE have naturally led many Iranian traders and companies to settle in Dubai. It is estimated that there are nearly 500,000 Iranians living in the UAE today, mainly in Dubai, which represents nearly 5% of the population⁷. In 2010, it was estimated that there were nearly 8,000 Iranian companies based in Dubai⁸. Many Iranians have become accustomed to visiting Dubai (nearly 400,000 in 2017). However, there has been a decline in visitors from Iran since 2016 due to growing economic difficulties in Iran.

⁶ "Every year, illegal imports from China and the UAE account for \$15 billion," Mashregh News, 27 September 2016. These statistics cover the years 2013-2014. At the time, the UAE was enforcing sanctions against Iran severely. It can therefore be assumed that this 40% ratio between illegal and official imports could still be relevant today.

⁷ Ghasemilee, S., "UAE soldiers to learn Persian", *News essential*, 11 April 2011.

⁸ Reuters, "Dubai traders fear sanctions impact on Iran business", 30 November 2011.

**Tableau n° 1 : RANKINGS OF PERIPHERAL BUSINESS PARTNERS
OF IRAN IN THE FIRST HALF OF 2018⁹**

	Export Market (1)	Imports (2)
United Arab Emirates	3	2
Iraq	2	45
Turkey	7	6
Afghanistan	4	75
Oman	10	14
Pakistan	8	23
Russia	21	9
Turkmenistan	13	72
Azerbaijan	16	61
Kuwait	18	60
Qatar	19	70
Kazakhstan	29	36
Georgia	24	39
Syria	23	87
Uzbekistan	28	44
Armenia	25	56
Ukraine	55	30
Tajikistan	36	55
Lebanon	42	63
Kyrgyzstan	50	85
Belarus	90	54
Jordan	64	71
Bahrain	67	99
Yemen	94	
Saudi Arabia		

(1) Classification of countries as export markets

(2) Ranking of countries in relation to their market share in Iran

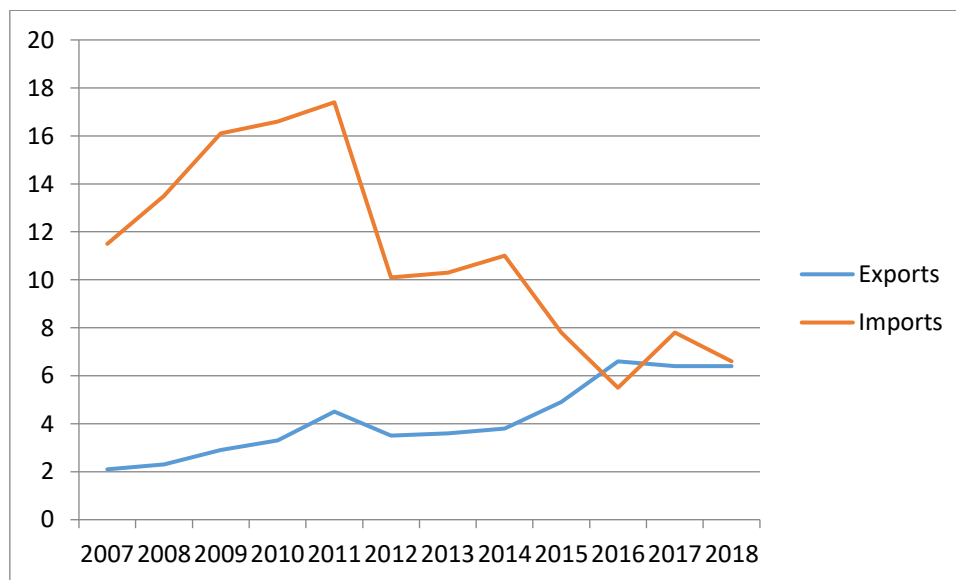
Source: Iran Trade Promotion Organisation (ITPO)

⁹ These results relate only to trade with countries considered close to Iran. Thus, Iraq is Iran's 2nd largest export market, behind China, which does not appear in this ranking.

2 – Trade between Iran and the UAE: Emirates' wish to limit relations with Iran

As mentioned above, the UAE has played a central role in Iranian foreign trade for decades. However, if we look back over the last 10 years, we realize that these exchanges have been affected by growing diplomatic tensions between the two countries. Since 2011, the UAE has implemented the same sanctions as the United Nations and the United States against Iran, imposed at the time to force the country to stop its uranium enrichment programme. This strategy was linked to the UAE's security concerns over the prospect of an Iranian military nuclear programme. The restrictions on trade financing with Iran imposed by the Central Bank of the UAE have led to a sharp drop in Iran's imports into the UAE, which fell from \$17.4 billion in 2011 to \$5.5 billion in 2016. Iran's exports to the UAE also declined, albeit less sharply, between 2011 and 2015. Then, following the lifting of sanctions against Iran following the Vienna nuclear agreement in July 2015, Iran's imports from the UAE rose again in 2017 with a 42% increase. Iran's exports also recovered in 2016 and 2017. But this rebound was short-lived. In particular, Iran's imports from the UAE fell by 15% in 2018 compared to the previous year.

FIGURE 1 - IRAN'S TRADE IN NON-OIL GOODS WITH THE UAE (BILLION DOLLARS)



Source: ITPO, author estimate for 2018.

It should be noted that this recent decline in Iranian imports from the UAE is partly due to the deterioration of the Iranian macroeconomic environment in 2018, mainly due to the reimposition of US sanctions following the US withdrawal from the July 2015 nuclear agreement. The value of the Iranian currency on the parallel market collapsed with a

depreciation of nearly 70% between September 2017 and early March 2019, making imports more expensive. In addition, according to the IMF, the Iranian economy recorded a decline in GDP in 2018 (-1.5%). However, it can be noted that in parallel, the UAE has clearly decided to cooperate fully with the United States to put in place a policy of "maximum pressure" on the Iranian authorities by limiting economic exchanges with Iran as much as possible. In fact, Iranian traders present in Dubai note that they have been facing, since the return of US sanctions, a deliberate strategy by the UAE to discourage them from trading with Iran: difficulties in renewing residence permits, restrictions on Iranian banks' activities in the UAE and on financial trade opportunities with Iran, arrests of individuals involved in a network linked with remittances to the Pasdaran in Iran¹⁰, etc. The Iranian press also reports that last year, the UAE closed nearly 3,000 bank accounts of Iranian companies and traders. Companies working with Iranians have had their bank accounts closed. The UAE authorities have even put Iranian traders on the lists of entities accused of terrorism. Iranian traders also say that the UAE no longer even allows them to use their private bank accounts. Previously, Iranian traders set up businesses and hired local managers in the UAE, even these are gradually being closed. All in all, Iranian companies in the UAE have understood that under the pretext of combating money laundering, the UAE government has decided to discourage them from trading with Iran. Faced with such difficulties, a number of Iranian traders have even decided to move elsewhere and leave the UAE¹¹.

The Iranian authorities have obviously protested against these actions, which they link to the current diplomatic tensions between Iran and a front composed of the UAE, Saudi Arabia and Israel. Faced with the UAE's desire to apply an economic embargo against Iran, the Iranian authorities are considering no longer seeing the UAE as the "hub" of the country's foreign trade. The Supreme National Security Council, the body in Tehran that deals with all security issues, has decided that a country must be found to replace the UAE as Iran's trading partner¹². The Central Bank of Iran also stated that, in view of the difficulties faced by Iranian banks, it was looking for institutions in the region to trade and carry out transactions with Iran¹³. The Tehran authorities are therefore considering the possibility of limiting Dubai's central role in Iranian foreign trade by developing trade relations with Doha in Qatar or the ports of Oman¹⁴. However, these projects do not seem to be really feasible in the short term. Adnan Moussapour, Director of the Iran - Qatar Chamber of Commerce, said: "*We must not cut off our relations with the United Arab*

¹⁰ See on this subject, "Dubai: the end of illusions for Iran", *Eghtesad news*, 27 February 2018, "Open Economic War of the United Arab Emirates against Iran", *Tabnak*, May 11, 2018.

¹¹ See on this subject, "Expulsion of Iranian traders from the United Arab Emirates under the pretext of combating money laundering", *Moasser*, July 4, 2018.

¹² "The political confrontation with the United Arab Emirates is linked to the fact that this country is creating difficulties for Iranian traders and stockbrokers", *Iran Students News Agency*, January 15, 2019.

¹³ See on this subject, "Dubai: the end of illusions for Iran", *Eghtesad news*, February 27, 2018.

¹⁴ See on this subject, "Dubai: the end of illusions for Iran", *Eghtesad news*, 27 February 27, 2018.

Emirates, which was our only gateway for foreign trade during the period when we were bearing sanctions¹⁵". In addition, the amount of trade with the UAE remains very much higher than that with Qatar and it will be difficult to change this situation in the very short term. In any case, Iran's trade and diplomatic tensions with the United Arab Emirates have fuelled strategic thinking in Tehran, which, as a new phenomenon, tends to associate geopolitical power and economic power much more clearly. Massoud Daneshmand, Director of the Iran - United Arab Emirates Chamber of Commerce, recalled as follows: "In 1988, UAE imports and exports were \$10 billion and \$60 billion respectively. Today, their imports and exports have reached \$300 billion and \$350 billion. The UAE can therefore neglect its economic relations with Iran much more easily than before¹⁶.

3 – Trade between Iran and Qatar: Iranian ambitions now disappointed

The decision taken in 2017 by Saudi Arabia, the United Arab Emirates, Bahrain and Egypt to establish an economic blockade against Qatar raised high hopes in Iran about the opportunities for Iranian companies to increase their exports to Qatar. Indeed, on the one hand, Qatar's imports from the five Arab countries imposing this blockade amounted to nearly 3 billion dollars in 2017 (Source: ITC - NU). In addition, as a result of the blockade against Doha, the only land-based access routes to this market were through Iran. On the other hand, the Iranian authorities felt that the diplomatic context was favourable since Iran's political support after the blockade, including the authorization of airlines working with Qatar to use its airspace, had been appreciated in Doha¹⁷. In addition, the possibility of developing economic relations with Qatar for Iran was seen at the time as a strategy to weaken the UAE's central role in Iran's trade relations with the outside world: in other words, Qatar could replace the UAE as a regional cluster for Iran¹⁸. Finally, the development of economic relations with Doha was also seen as a way to develop strategic relations with an Arab country in the Persian Gulf and "to defeat the policy of demonizing Iran pursued by these countries [under Saudi Arabia's leadership]¹⁹".

¹⁵ "Can Qatar and Oman replace the United Arab Emirates in terms of trade? ", Asrdiplomacy, February 28, 2018.

¹⁶ See on this subject, "Expulsion of Iranian traders from the United Arab Emirates under the pretext of combating money laundering", *Moasser*, July 4, 2018.

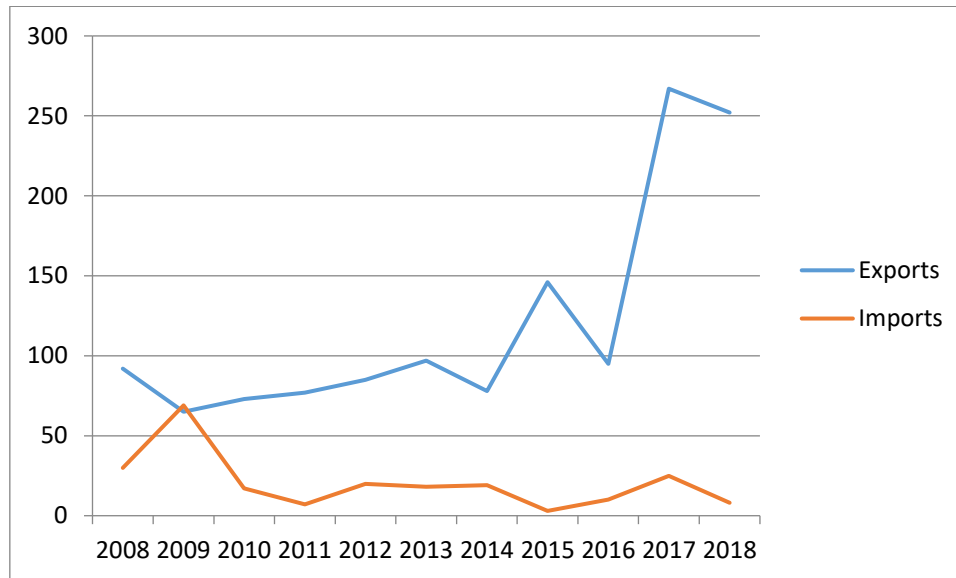
¹⁷ Ahmad Ahan, Qatar's senior government official, said: "In the face of this blockade... We thank the people and the Islamic Republic of Iran for standing beside us". Cf. "The development of economic relations between Qatar and Iran", *Baeghtesad*, May 13, 2018.

¹⁸ "Can Qatar and Oman replace the United Arab Emirates in terms of trade?", Asrdiplomacy, February 28, 2018.

¹⁹ "Iran's market share in Qatar: low in the past, compared to many competitors today", *Islamic Republic News agency*, June 17, 2017.

However, developments in trade relations with Qatar do not seem to have met these expectations (see Chart 2). However, it can be noted that Iran's exports to the small emirate increased very strongly in 2017 compared to 2016 with a growth of 181% and then stabilized in 2018.

**GRAPH 2 - TRADE IN NON-OIL GOODS
IRAN'S RELATIONS WITH QATAR (MILLIONS OF DOLLARS)**



Source: ITPO, author estimate for 2018.

In fact, the Iranian authorities were hoping to see much stronger export growth in Qatar as a result of the withdrawal of the UAE, Saudi Arabia and Egypt from this market. A number of Iranian observers note that it is mainly Turkey that has benefited from this embargo²⁰. Yet, according to the UNICC, Turkey's export growth to Qatar in 2017 compared to 2016 was less than Iran's (+48%). In fact, Iranian decision-makers believed that their geographical proximity to Qatar would play more in their favour in the open competition for access to this market.

A reflection therefore began in Iran to understand why Iran's exports to Qatar had not achieved the expected objectives. Among the constraints that have hindered the development of Iranian sales in Qatar, are mentioned in particular the impossibility of transferring the currencies obtained in Iran because Iranian banks are under American sanctions²¹. At the same time, some consider that Iranian companies have not made enough effort in terms of product packaging to adapt to a market with very strong purchasing

²⁰ "The Qatar market for Iran or Turkey? ", *Iran Student News Agency*, December 11, 2017.

²¹ "Why were we unable to take possession of the Qatar market after the country's economic blockade? ", *Tabnak*, January 30, 2019.

power²². On the other hand, Qatari leaders note that the Iranian market remains relatively closed due to high tariffs, which may limit Qatar's willingness to facilitate Iranian exports in return²³. Finally, Mehdi Karimi Tafaresh, Director of the Union of Food Producers, considers that Iran, which has a real comparative advantage on the Qatar market due to the quality of its fruit and vegetables, has not been able to benefit from it due to the absence of refrigerated containers on Iranian boats²⁴. Finally, some Iranian analysts also consider that, in order not to be accused by Saudi Arabia and the UAE of becoming a real ally of Iran, Qatar does not want to see its economic relations with the Islamic Republic progress too quickly²⁵. In the longer term, the Iranian authorities continue to believe that Iran's export growth potential in Qatar remains high. The case of fruit and vegetables has already been mentioned. The Iranian Minister of Industry, Mines and Trade, Mohamed Shariatmadari, also believes that the building materials sector could significantly increase its sales in Qatar²⁶. In fact, the authorities of both countries have mentioned a number of projects to strengthen trade links between the two countries, such as the creation of a common maritime transport line, a common industrial zone and the establishment of a free trade area²⁷.

CONCLUSION

Faced with the UAE's desire to apply maximum economic pressure on its economic interests, the Iranian authorities can put in place several possible strategies. Emerging from the top of this crisis would mean for Iran to strengthen its integration into the world economy, in particular through WTO membership. In such an eventuality, the UAE would lose much of its attractiveness as a compulsory crossing point for Iran in its trade with the rest of the world. However, the impact of US economic sanctions makes this type of policy impossible in the short term. Another possibility raised in Iran is to find a country to replace the UAE as a hub for Iranian foreign trade: Qatar could potentially play this role. However, the still low level of trade with Iran and Qatar's desire not to appear as a new ally of Iran, make this choice unrealistic. Ultimately, wouldn't the solution for Iran be to strengthen its regional integration? Iraq, Afghanistan, Turkey, Oman and Pakistan have now entered Iran's top 10 export markets for non-oil products. The Iranian authorities hope to develop their economic exchanges with Qatar and Syria,

²² "Why were we unable to take possession of the Qatar market after the country's economic blockade? ", *Tabnak*, January 30, 2019.

²³ "The development of economic relations between Qatar and Iran", *Baeghtesad*, May 13, 2018.

²⁴ "Qatar's market share of \$4.9 billion was given to Turkey," *Baeghtesadi*, July 21, 2018.

²⁵ "Iran's market share in Qatar: low in the past, compared to many competitors today", *Islamic Republic News agency*, June 17, 2017.

²⁶ "The three problems to be solved in trade with Qatar", *Eghtesad news*, November 27, 2017.

²⁷ "The three problems to be solved in trade with Qatar", *Eghtesad news*, November 27, 2017.

particularly when reconstruction begins. Iranian decision-makers realize that it is much more complicated for the American authorities to force all these countries, whose economies are often fragile and whose companies are not very dependent on the United States, to limit their trade with Tehran, than it is with the European Union, Japan or South Korea. Finally, as in 2010-2012, the sanctions against Iran may lead the country to strengthen its trade ties with its neighbours.